



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **Report of the auditor-general to the North West provincial legislature and the council on the Mamusa Local Municipality**

### **Report on the audit of the financial statements**

#### **Disclaimer of opinion**

1. I was engaged to audit the financial statements of the Mamusa Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2017, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matter described in the basis for disclaimer of opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

#### **Basis for disclaimer of opinion**

##### **Financial statements submitted without complete and accurate underlying records**

3. I was unable to obtain sufficient appropriate audit evidence regarding the financial statements as a whole, as the financial statements were presented for audit purposes without accurate and complete underlying accounting records. I was unable to audit the financial statements by alternative means. Consequently, I was unable to determine whether any adjustments relating to the financial statements as a whole were necessary.

#### **Other matter**

4. I draw attention to the matter below. My opinion is not modified in respect of this matter.

##### **Unaudited disclosure notes**

5. In terms of section 125(2)(e) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.



## Responsibilities of accounting officer

6. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the MFMA and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
7. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention either to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

## Auditor-general's responsibilities for the audit of financial statements

8. My responsibility is to conduct an audit of the financial statements in accordance with International Standards on Auditing (ISAs) and to issue an auditor's report. However, because of the matter described in the basis for disclaimer of opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.
9. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) together with the ethical requirements that are relevant to my audit of the financial statements. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

### Report on the audit of the annual performance report

10. I was unable to obtain sufficient appropriate audit evidence to confirm the usefulness and reliability of the reported performance information because the annual performance report was presented without the approved integrated development plan (IDP) and service delivery and budget implementation plan (SDBIP) for the year under review, as required by section 25 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and sections 1, 21 and 53 of the MFMA. I was unable to confirm the usefulness and reliability of the reported performance information by alternative means.

### Report on audit of compliance with legislation

## Introduction and scope

11. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
12. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:



### **Annual financial statements, performance and annual reports**

13. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not corrected as the supporting records could not be provided, which resulted in the financial statements receiving a disclaimer of audit opinion.
14. I could not obtain sufficient appropriate audit evidence that the 2015-16 annual report was tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
15. I could not obtain sufficient appropriate audit evidence that the 2015-16 annual report was published for the local community to submit representations in connection with the annual report, as required by section 127(5)(a) of the MFMA.
16. I could not obtain sufficient appropriate audit evidence that the council adopted an oversight report containing the council's comments on the annual report within the prescribed timelines, as required by section 129(1) of the MFMA.

### **Strategic planning and performance management**

17. I could not obtain sufficient appropriate audit evidence that the SDBIP for the year under review was developed and approved by the mayor as required by section 53(1)(c)(ii) of the MFMA.
18. I could not obtain sufficient appropriate audit evidence that the IDP adopted by the council after the start of its elected term, as required by section 25(1) of the MSA.
19. I could not obtain sufficient appropriate audit evidence that a mid-year performance assessment was performed as required by section 72(1)(a)(ii) of the MFMA.
20. I could not obtain sufficient appropriate audit evidence that a performance management system was established as required by section 38(a) of the MSA and regulation 8 of the Municipal planning and performance management regulations.

### **Expenditure management**

21. I could not obtain sufficient appropriate audit evidence that money owed by the municipality was paid within 30 days and or an agreed period, as required by section 65(2)(e) of the MFMA.
22. I could not obtain sufficient appropriate audit evidence that payments and withdrawals from the municipality's bank account were approved by the accounting officer, the chief financial officer or a properly authorised official, as required by section 11(1) of the MFMA.
23. I could not obtain sufficient appropriate audit evidence that an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was in place, as required by section 65(2)(a) of the MFMA.
24. I could not obtain sufficient appropriate audit evidence that an adequate management, accounting and information system was in place which recognised expenditure when it was incurred, accounted for creditors and accounted for payments made, as required by section 65(2)(b) of the MFMA.
25. Effective steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. I could not obtain sufficient appropriate audit evidence that the irregular expenditure disclosed reflect the full extent of the irregular expenditure incurred as indicated in the basis for disclaimer of opinion paragraph.



26. Effective steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. I could not obtain sufficient appropriate audit evidence that the fruitless and wasteful expenditure disclosed reflect the full extent of the fruitless and wasteful expenditure incurred as indicated in the basis for disclaimer of opinion paragraph.

### **Revenue management**

27. I could not obtain sufficient appropriate audit evidence that an adequate management, accounting and information system which accounts for revenue, debtors and receipts of revenue was not in place, as required by section 64(2)(e) of the MFMA.
28. I could not obtain sufficient appropriate audit evidence that an effective system of internal control for debtors and revenue was in place, as required by section 64(2)(f) of the MFMA.
29. I could not obtain sufficient appropriate audit evidence that revenue due to the municipality was calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
30. I could not obtain sufficient appropriate audit evidence that accounts for municipal tax and charges for municipal services were prepared on accrual basis, as required by section 64(2)(c) of the MFMA.
31. I could not obtain sufficient audit evidence that interest had been charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

### **Asset management**

32. I could not obtain sufficient appropriate audit evidence that an adequate management, accounting and information system which accounts for assets was in place, as required by section 63(2)(a) of the MFMA.
33. I could not obtain sufficient appropriate audit evidence that an effective system of internal control for assets including an asset register was in place, as required by section 63(2)(c) of the MFMA.
34. I could not obtain sufficient appropriate audit evidence that all investments were made in accordance with regulations 3(3), 6, 8 and 12(2) of the Municipal investment regulations
35. I could not obtain sufficient appropriate audit evidence that capital assets were sold, transferred and permanently disposed that were needed to provide the minimum level of basic municipal service, in contravention of section 14(1) of the MFMA.
36. I could not obtain sufficient appropriate audit evidence that capital assets were sold, transferred and permanently disposed with the approval of the council and the accounting officer, as required by section 14(2)(a) of the MFMA.

### **Liability management**

37. I could not obtain sufficient appropriate audit evidence that the municipality incurred debt that was denominated in a currency other than the Rand, was indexed to or affected by fluctuations in the value of the Rand against foreign currencies, in contravention of section 47(a) of the MFMA.
38. I could not obtain sufficient appropriate audit evidence that an adequate management, accounting and information system which accounts for liabilities was in place, as required by section 63(2)(a) of the MFMA.
39. I could not obtain sufficient appropriate audit evidence that an effective system of internal control for liabilities including a liability register was in place, as required by section 63(2)(c) of the MFMA.



### **Human resource management**

40. I was unable to obtain sufficient appropriate audit evidence that job descriptions were established for all posts in which appointments were made, as required by section 66(1)(b) of MSA.
41. I was unable to obtain sufficient appropriate audit evidence that appropriate systems and procedures to monitor, measure and evaluate performance of staff were developed and adopted as required by section 67(1)(d) of the MSA.
42. I was unable to obtain sufficient appropriate audit evidence that municipal manager and senior managers signed performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

### **Consequences management**

43. I was unable to obtain sufficient appropriate audit evidence that unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
44. I was unable to obtain sufficient appropriate audit evidence that allegations were always investigated, as required by regulation 5(3) of the Disciplinary regulations for senior managers and section 171(4) of MFMA.

### **Conditional grants**

45. I could not obtain sufficient appropriate audit evidence that the Municipal Infrastructure Grant was spent in accordance with the applicable grant framework as per required by section 17(1) of the DoRA.
46. I could not obtain sufficient appropriate audit evidence that the municipality did evaluate its performance in respect of programmes funded by the Municipal Infrastructure Grant, as required by section 12(5) of the DoRA.

### **Procurement and contract management**

47. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements as the information was not available for audit. Similar limitation was also reported in the prior year.
48. Sufficient appropriate audit evidence could not be obtained that all extensions or modifications to contracts were approved by a properly delegated official, as required by Supply Chain Management (SCM) regulation 5. Similar non-compliance was also reported in the prior year.
49. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
50. Sufficient appropriate audit evidence could not be obtained that the contract performance and monitoring measures and methods were sufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the prior year.
51. Sufficient appropriate audit evidence could not be obtained that awards were not made to providers who were in the service of the municipality and whose directors or principal shareholders are in the service of the municipality, in contravention of section 112(j) of the MFMA and SCM regulation 44.



52. Sufficient appropriate audit evidence could not be obtained that awards were not made to providers who were in the service of other state institutions or whose directors or principal shareholders were in the service of other state institutions, in contravention section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).
53. Sufficient appropriate audit evidence could not be obtained that persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality disclosed such interest, in contravention of SCM regulation 46(2)(e), the code of conduct for councillors issued in terms of the MSA and the code of conduct for staff members issued in terms of the MSA. Similar non-compliance was also reported in the prior year.
54. Sufficient appropriate audit evidence could not be obtained that persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality disclosed such interest, in contravention of SCM regulation 46(2)(e), the code of conduct for councillors issued in terms of the MSA and the code of conduct for staff members issued in terms of the MSA.
55. Sufficient appropriate audit evidence could not be obtained that SCM officials or other SCM role players who or whose close family members, partners or associates had a private or business interest in contracts awarded by the municipality, did not participate in the process relating to that contract, in contravention of SCM regulation 46(2)(f). Similar non-compliance was also reported in the prior year.

## Other information

56. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial statements, the auditor's report thereon and those selected development priorities presented in the annual performance report that have been specifically reported on in the auditor's report.
57. The accounting officer of the municipality is responsible for the other information. The other information comprises the information included in the annual report which includes the accounting officer's report and the audit committee's report. The other information does not include the financial statements and the auditor's report thereon.
58. My opinion and findings do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
59. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
60. As a result of the disclaimer of opinion expressed on the financial statements, I do not conclude on material misstatements of the other information relating to the financial statements. I did not yet receive the other information prior to the date of the auditor's report. When I do receive this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to re-issue my auditor's report amended as appropriate.



## Internal control deficiencies

61. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in a disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

- Leadership did not implement effective human resources management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored thus in turn ensuring stability in the senior management structure of the municipality.
- Leadership did not establish and implement an information technology governance framework (IT) that supports and enables the business, delivers value and improves performance including a disaster recovery plan which would safeguard financial, performance as well as compliance information in the event of a disaster such as the fire which took place and destroyed all financial as well as performance documentation.
- Management did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information particularly with regard to implementation and monitoring of a disaster recovery plan.
- Leadership and oversight structures did not exercise oversight to ensure that appropriate risk management activities were establishment to oversee the implementation of business continuity arrangements that allow the municipality to operate under conditions of volatility and to withstand and recover from acute disasters.

AUDITOR GENERAL

Potchefstroom

30 November 2017



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## **Annexure – Auditor-general's responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the Municipality's compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control.
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
  - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [name of the auditee] [and its subsidiary]'s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a Municipality to cease to continue as a going concern.
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.

